

Health Care Indicators

Hospital, Employment and Price Indicators for the Health Care Industry: Third Quarter 1999

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This feature presents highlights from statistics on health care utilization, prices, expenses, employment, and work hours, as well as on national economic activity, with brief analysis of these economic indicators. These statistics provide an early indication of changes occurring in the health care sector and within the general economy. While most statistics include data for third quarter of 1999, American Hospital Association include data (see tables 1 and 2) through the third quarter of 1998.

Key Trends

- HI Trust Fund assets rose 12.9 percent in the third quarter of 1999 when compared to the same period of the previous year. Estimates in the 1999 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund indicate that, given current law and trends, the Part A Trust Fund will be exhausted in 2015.
- Employment in home health appears to be nearing a turnaround in the third quarter of 1999. Although the third quarter of 1999 was the seventh quarter of decline, home health's employment drop was only 0.8 percent when compared to the same period of 1998. This decline was significantly smaller than those of the previous 6 quarters. Home health employment and payroll decreases began in early 1998, following public sector actions to control Medicare spending growth and ongoing actions to detect fraud and abuse in this industry.
- Medical care prices continue to outpace overall prices as measured by the implicit price deflator, with the Consumer Price Index (CPI) for Medical Care about 2 percentage points higher. Meanwhile, growth in the Producer Price Index for Health Services continues to track overall prices more closely than did the CPI.
- Hospital prices as measured by the Consumer Price Index continue to rise, increasing an average of 4.0 percent over the past 3 quarters, when compared to the prior year. For the third quarter, the Consumer Price Index for Hospital Services increased 4.2 percent.
- Nursing home prices continue to decelerate in the third quarter of 1999, a likely reaction to the actions required by the Balanced Budget Act (BBA) to control Medicare spending growth. Average hourly earnings, however, continue to accelerate, indicating either a skill mix shift where firms are utilizing higher skilled and higher paid workers or a tight labor market where firms were unable to find lower paid workers and offered higher wages to compete. Meanwhile, input prices overall, as measured by HCFA's input price index for nursing facilities continued the level trend displayed over several quarters.
- Home health care service prices have started to accelerate after several quarters of deceleration while input prices have remained fairly steady. At the same time, average hourly earnings continue to accelerate to 5.0 percent for the third quarter.

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Medicare Hospital Insurance (HI) Trust Fund, Percent Change in Income, Outlays, and Assets from Same Period of Previous Year: 1992-1999

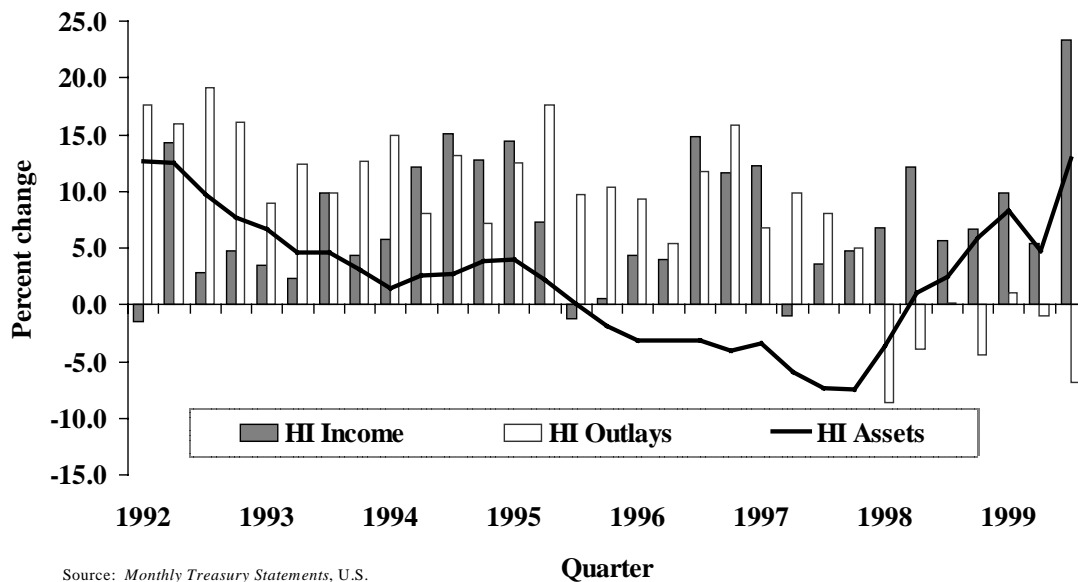


Figure 1

Medicare Trust Fund Operations

In the third quarter of 1999, Medicare hospital insurance (HI or Part A) trust fund assets continued to increase (Figure 1). This sixth consecutive quarterly increase is the result of a strong economy and low unemployment that continued to boost trust fund income while the Balanced Budget Act of 1997 and efforts to reduce fraud and abuse continued to constrain outlay growth. In the third quarter, income rose by 23.3 percent while Medicare Part A outlays declined 6.9 percent, resulting in a 12.9 percent gain (or \$85.3 billion increase) in assets when compared to the same quarter in 1998.

The reverse was true for Medicare supplementary medical insurance (SMI or Part B). Outlays rose at a faster pace than income—15.2 percent and 4.4 percent respectively.

Total Medicare outlays (Part A and Part B combined) rose 0.6 percent in the third quarter of 1999 when compared to the same period of the previous year.

Estimates published in the *1999 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* indicate that, given current law and trends, the HI Trust Fund will be exhausted in 2015.

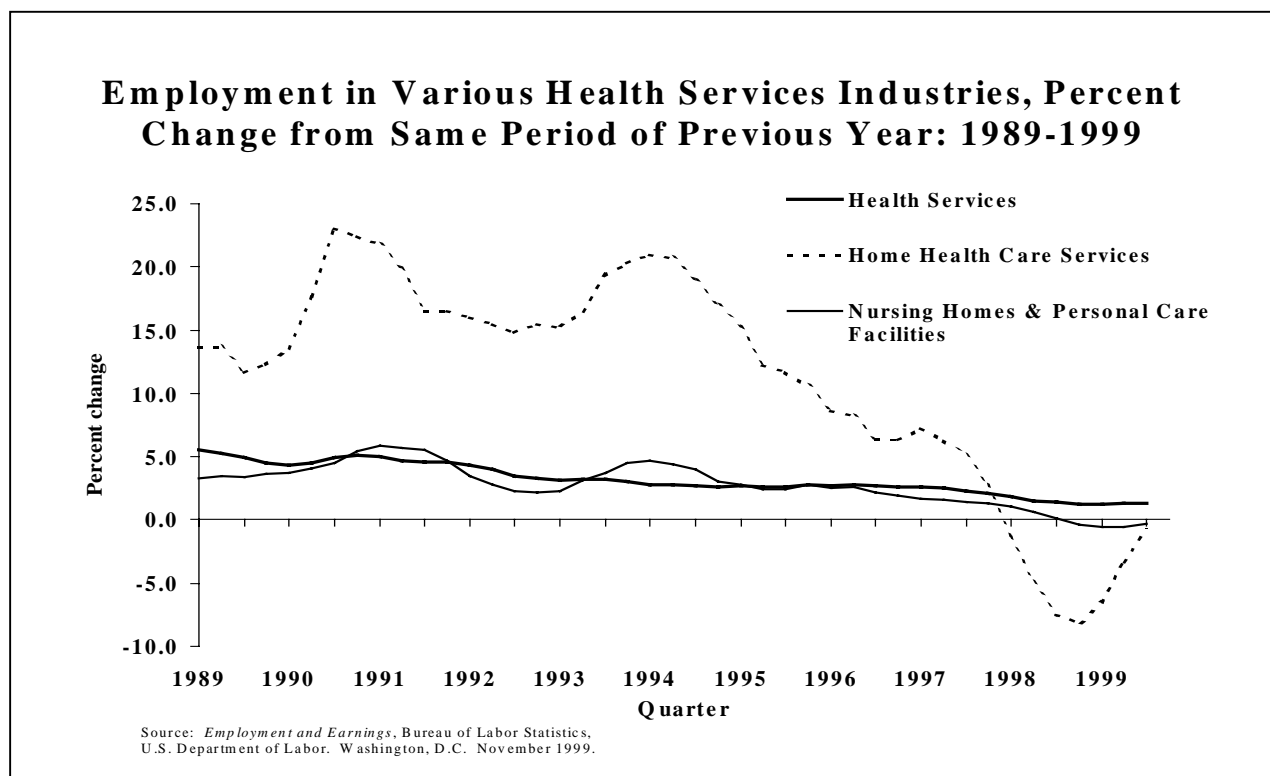


Figure 2

Health Services Industries: Employment

Employment in Home Health Care Services appears poised for a turnaround. Although the number of employees fell for the seventh consecutive quarter in third quarter of 1999, when compared to the same quarter of the previous year, the rate of decline continued to slow. Employment fell only 0.8 percent, after declines of 8.1, 6.6 and 3.3 percent in the prior three quarters, respectively. Employment in Nursing Homes and Personal Care Facilities also declined slightly, experiencing a drop of 0.3 percent. Despite this fourth consecutive quarterly decrease, all drops have been modest (-0.4, -0.6, and -0.6 percent). At the same time, the growth of hospital employment appeared to be slowing (see Table 5). Private hospitals' third quarter 1999 growth rate of 0.9 percent was the first increase of less than 1 percent since the first quarter of 1996. However, deceleration of the pace of employment increase has occurred for four quarters.

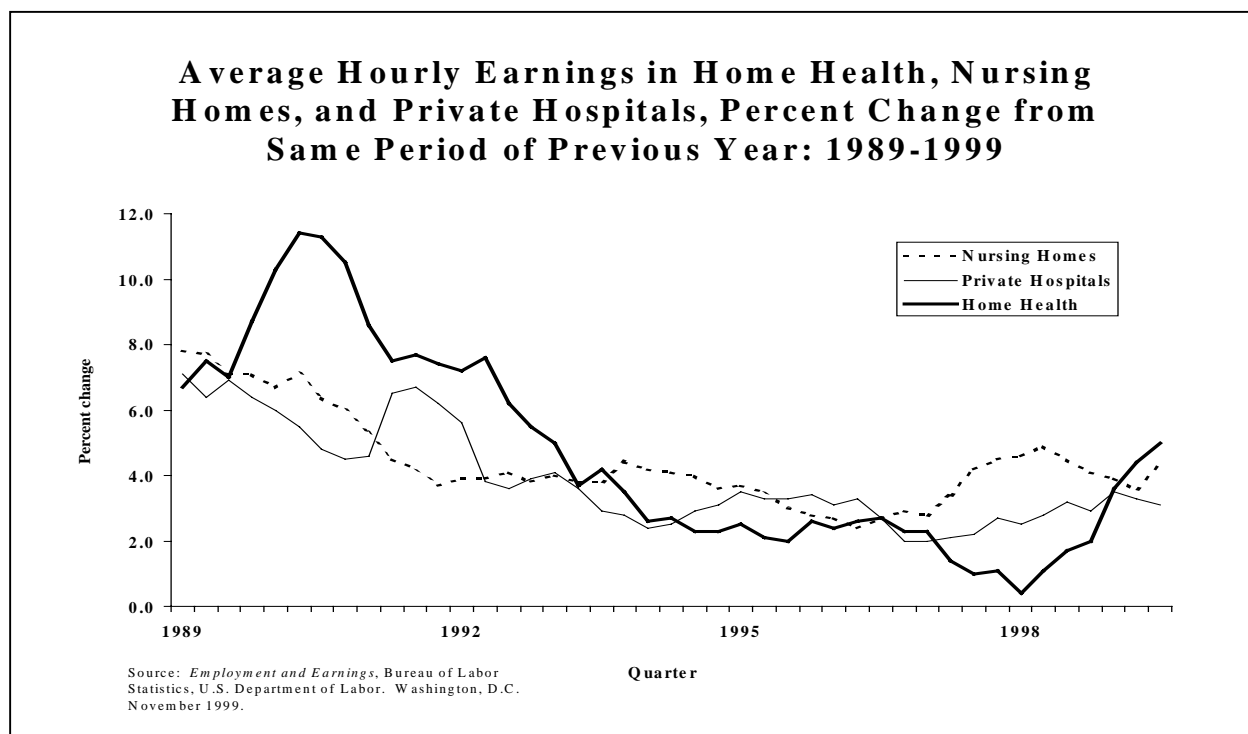
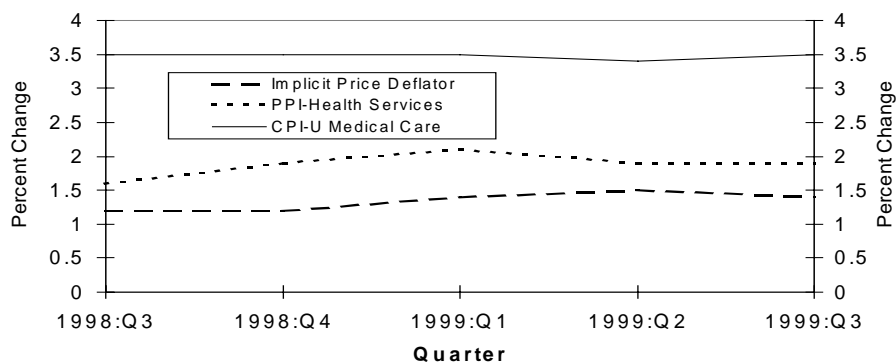


Figure 3

Health Services Industries: Average Hourly Earnings

For the sixth consecutive quarter, average hourly earnings (AHE) in the home health industry continued to accelerate, reaching a rate of 5.0 percent in the third quarter of 1999 when compared to the third quarter of 1998. Unlike the BLS Employment Cost Index, skill mix is not held constant in the calculation of AHE. Growth in AHE could signal that the skill mix in this industry has changed or that the tight labor market for low-paid workers has forced home health to increase wage rates in order to attract the workers they need. Similarly, AHE in nursing homes and personal care facilities also accelerated, reaching a growth rate of 4.3 percent. It is possible that nursing homes are substituting higher skilled workers for the low paid workers that have been difficult to hire. The rate of growth of AHE in nursing homes and in home health exceeded that of overall health services, which averaged about 3.5 percent in the past eight quarters. Within health services, only private-sector hospitals showed a deceleration in the growth of AHE. This two-quarter deceleration occurred during a 4-quarter deceleration of hospital employment growth.

Percent Change in Medical Care and Overall Prices from the Same Period of the Previous Year, 1998-1999



Source: U.S. Department of Labor, Bureau of Labor Statistics; *CPI Detailed Report*; U.S. Department of Labor, Bureau of Labor Statistics, *Producer Price Indexes*; U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*.

Figure 4

Medical Care Prices

Medical care prices, as measured by the Consumer Price Index (CPI) continued unchanged in the third quarter of 1999 as they have for the past 4 quarters. As Figure 4 and Table 7 indicate, annual growth in the CPI for medical services has been about 3.4-3.5 percent over the past 5 quarters. The Producer Price Index (PPI) for health services has grown between 1.6 and 2.1 percent over this same period. Prices in medical services have also continued to outpace overall prices, as measured by the GDP implicit price deflator, which has only increased between 1.2 to 1.5 percent for the past 5 quarters. This gap between medical prices and overall prices that has occurred since 1997 has widened in 1998 and 1999, and is in contrast to most of the 1991-1997 period where medical inflation, as measured by the CPI, and overall inflation were converging. This same pattern existed for the PPI for health services, except that the growth in the PPI is much closer to that in the GDP implicit price deflator.

The difference in growth between the CPI for medical care services and the PPI for health services reflects the definitional and conceptual differences in the two indexes. First, there are substantial differences in what is captured in the two indexes. For example, the PPI includes price changes from public patients, such as Medicare and Medicaid, while the CPI includes only price changes associated with out-of-pocket expenses and private health insurance payments. Also, the PPI includes prices for home health services while the CPI does not, and the CPI includes prices for dental and eye care services that the PPI does not. Second, the PPI captures transaction prices while the CPI in some cases is measuring changes in list (undiscounted) prices.

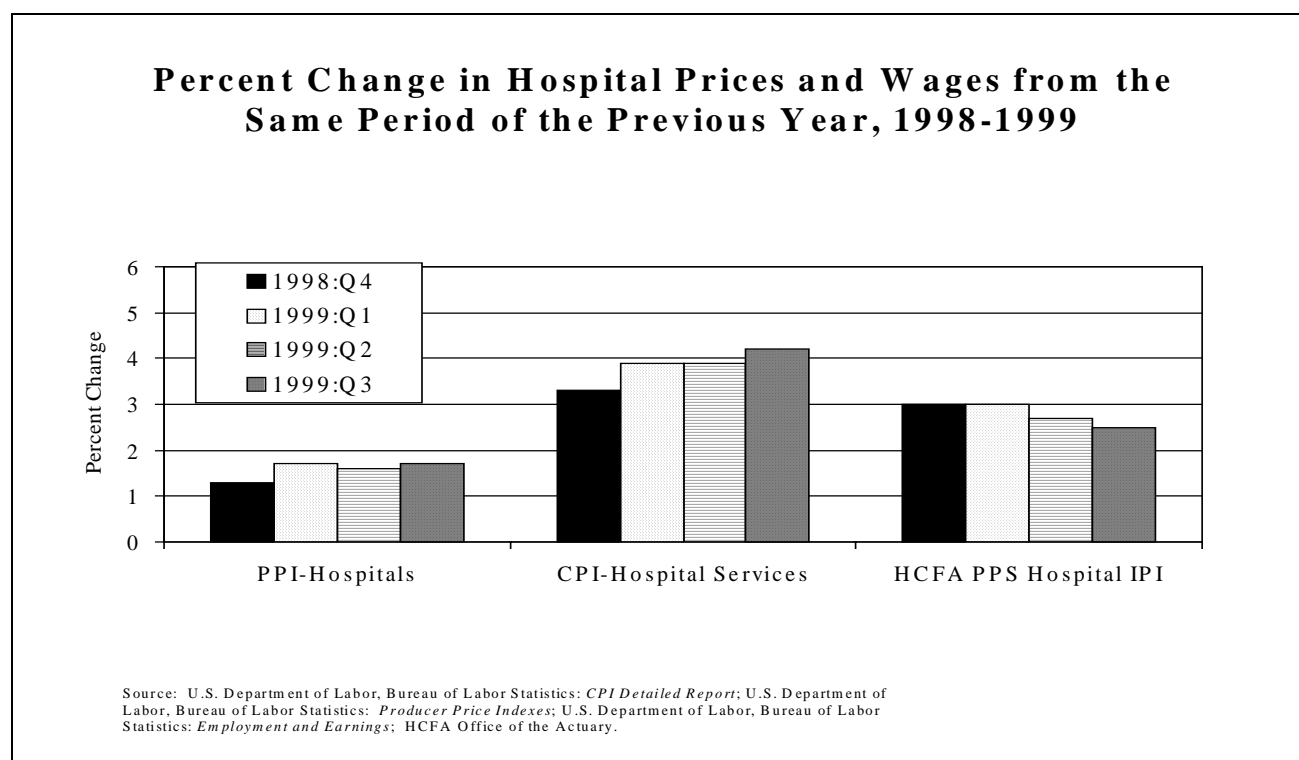
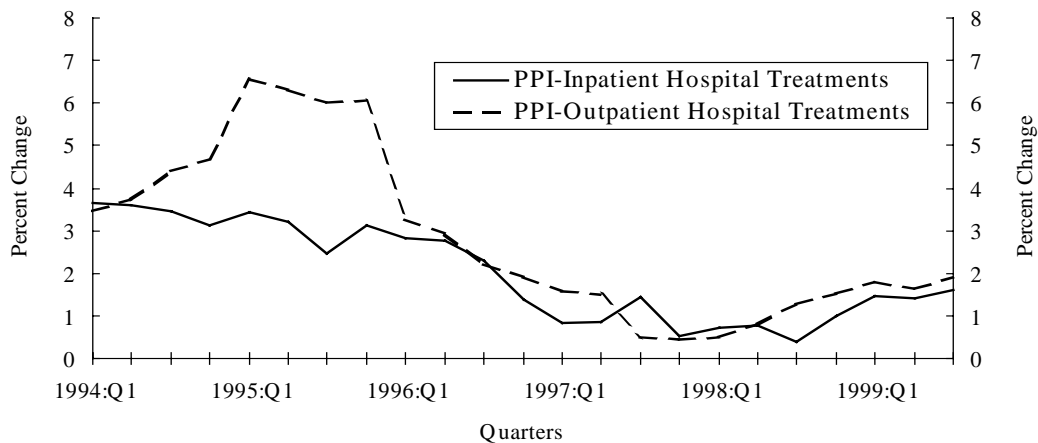


Figure 5
Hospital Prices

Hospital prices, as measured by the CPI, and shown in Figure 5, have continued their acceleration over the past 3 quarters, increasing an average of 4.0 percent since the fourth quarter of 1998. The main reason for this acceleration is an increase in prices for outpatient services, which has increased 5.2 percent since the fourth quarter of 1998. The PPI for hospital prices has only increased 1.7 percent on average, over the same period. The difference in the PPI and CPI measures lies in differences in what is measured; the PPI picks up Medicare prices, which may be increasing at a slower rate than the out of pocket and private health insurance expenses captured in the CPI.

In contrast to prices, costs, as measured by the HCFA input price index (IPI) for hospitals, have been decelerating, mainly due to a large decline the rate of growth of pharmaceutical prices. Growth in pharmaceutical prices has declined from a rate of 18.7 percent in the fourth quarter of 1998 to 8.3 percent in the third quarter of 1999.

Percent Change in Hospital Inpatient and Outpatient Producer Prices from Same Period of the Previous Year, 1994-1999



Source: U.S. Department of Labor, Bureau of Labor Statistics: *Producer Price Indexes*

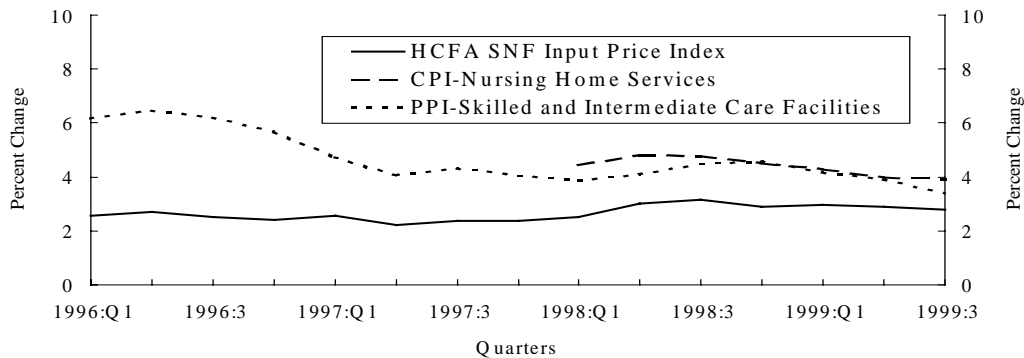
Figure 6

Hospital Prices, continued

Movements in PPI prices are very similar across inpatient and outpatient services in recent years (Figure 6). However, underlying this overall similarity for inpatient and outpatient are very different trends by payor type. For hospital inpatient services, slow growth in Medicare prices (0.4 percent in the third quarter of 1999) has been offset by faster growth in Medicaid prices (1.0 percent in Q3 1999) and prices faced by private patients (2.3 percent in Q3 1999). This has been the trend since 1997 and can be traced directly to reduced updates in hospital payments under Medicare PPS as mandated by the Balanced Budget Act (BBA) of 1997.

By comparison, hospital outpatient producer price changes by payer type have exhibited the exact opposite trend since 1997. Medicare price growth (3.8 percent in the third quarter of 1999) for outpatient services has far outpaced price growth for private patients (1.4 percent in the third quarter of 1999). This mostly reflects the different Medicare payment methodologies for hospital inpatient and outpatient services. The inpatient payments are paid prospectively based on an admission diagnosis, while outpatient payments are based on costs. The BBA mandated that Medicare outpatient payments be made on a prospective basis beginning January 1, 1999, although the implementation date has since been delayed.

Percent Change in Nursing Home Prices from Same Period of the Previous Year, 1996-1999



Source: U.S. Department of Labor, Bureau of Labor Statistics: *CPI Detailed Report*; U.S. Department of Labor, Bureau of Labor Statistics: *Producer Price Indexes*; HCFA, Office of the Actuary.

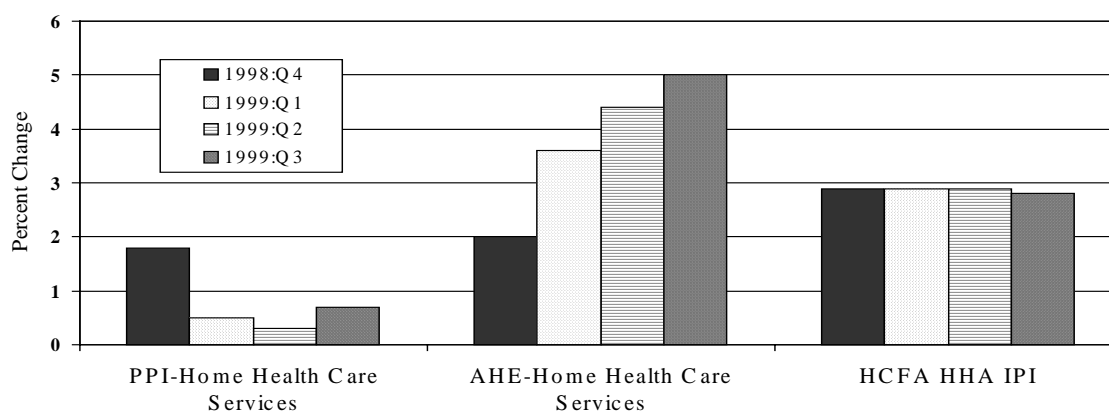
Figure 7

Nursing Home Prices

Nursing home price growth, as measured by the CPI and PPI, continued to decelerate in the third quarter of 1999. As shown in Figure 7, the deceleration in growth of nursing home prices has brought these rates more in line with those of the HCFA SNF input price index. The recent deceleration in nursing home prices has coincided with the implementation of the Medicare SNF Prospective Payment System (PPS) in July 1998. In part, this can be evidenced by looking at the HCFA SNF input price index which has remained relatively flat while prices continue to fall, indicating something other than costs is affecting price.

At the same time, the average hourly earnings figure continues to accelerate, possibly indicating these agencies may be further utilizing higher skilled and higher paid workers. Another explanation might be that nursing homes are facing a tight labor market and need to raise wages to try and attract and keep skilled workers. This is a problem that continues to plague the industry due to the relatively long hours and low pay.

Percent Change in Home Health Care Prices and Wages from the Same Period of the Previous Year, 1998-1999



Source: U.S. Department of Labor, Bureau of Labor Statistics: *CPI Detailed Report*; U.S. Department of Labor, Bureau of Labor Statistics: *Producer Price Indexes*; HCFA, Office of the Actuary

Figure 8

Home Health Prices

Home health care service prices have started to accelerate after a period of deceleration. The Producer Price Index for home health agencies accelerated to 0.7 percent for third quarter of 1999, after decelerating for the past 5 quarters. This may be partially in response to the acceleration in average hourly earnings over the past 7 quarters.

The average hourly earnings figure has continued to accelerate, as have employment and hours, in the home health sector, although far below the levels of 1996 and 1997. The latest average hourly earnings figure is increasing at a rate of 5.0 percent for the third quarter of 1999, up from an average of 4.0 percent for the first two quarters of 1999. This implies a shift in the skill mix in the industry towards higher paid and higher skilled workers. This may be signaling a reaction to boost the quality of services as well as anti-fraud initiatives by HCFA. It may also imply a cut in services previously paid for but not technically covered by Medicare that were performed by lower paid aides.

Input prices however, as measured by the HCFA home health input price index, have remained fairly steady, reflecting very little price pressure due to inflation in costs. The reason that the input price index is not accelerating in response to the AHE figure is that the input price index uses a fixed skill mix index—a HCFA developed weighted average of 5 ECI categories relevant for home health agency workers to measure changes in wages and not the AHE which does not hold skill mix constant. This average ECI for home health workers has actually decelerated over the past 4 quarters.